

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA



FINANCIAL STATEMENT REPORT

ISSUED DECEMBER 13, 2006

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$13.40. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 3565 or Report ID No. 06601870 for additional information.

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November 16, 2006

Independent Auditor's Report
on the Financial Statements

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Shreveport, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Court of Appeal, Second Circuit, a court within Louisiana state government, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Court of Appeal, Second Circuit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1-B, the accompanying special purpose financial statements present only the funds of the Court of Appeal, Second Circuit. As such, they present the appropriated and non-appropriated activity of the court that are part of the accounts and fund structure of the State of Louisiana. The General Appropriation Fund reflects appropriated activity of the court that is part of the General Fund of the State of Louisiana. The non-appropriated fund is an individual fund of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated fund. These procedures differ from accounting principles generally accepted in the United States of America as described in the notes to the financial statements. The effects on the financial statements of the variances between legal basis accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the accompanying special purpose financial statements referred to above were not intended to and do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of each fund of the Court of Appeal, Second Circuit, as of June 30, 2006, or changes in financial position thereof for the year then ended.

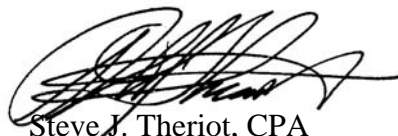
In our opinion, the accompanying special purpose financial statements referred to above present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Court of Appeal, Second Circuit as of June 30, 2006, and the transactions of such funds for the year then ended, on the basis of accounting described in note 1-D.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Court of Appeal, Second Circuit did not directly suffer any major effects from these two hurricanes, the long-term effects of these events on the Court of Appeal, Second Circuit cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, on our consideration of the Court of Appeal, Second Circuit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the court and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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[2CCA06]

**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
ALL APPROPRIATED AND
NON-APPROPRIATED FUNDS**

Balance Sheet (Legal Basis), June 30, 2006

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED FUND - FEE ACCOUNT	TOTAL (MEMORANDUM ONLY)
ASSETS			
Cash and cash equivalents (note 2)	\$464,840	\$1,189,855	\$1,654,695
Accounts receivable		6,473	6,473
TOTAL ASSETS	\$464,840	\$1,196,328	\$1,661,168
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$17,370	\$930	\$18,300
Accrued liabilities	7,946		7,946
Total Liabilities	25,316	930	26,246
Fund Equity - fund balances:			
Reserved for encumbrances	439,524		439,524
Reserved for continuing operations (note 6)		1,195,398	1,195,398
Total Fund Equity	439,524	1,195,398	1,634,922
TOTAL LIABILITIES AND FUND EQUITY	\$464,840	\$1,196,328	\$1,661,168

The accompanying notes are an integral part of this statement.

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**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
ALL APPROPRIATED AND
NON-APPROPRIATED FUNDS**

**Statement of Revenues, Expenditures, and
Changes in Fund Balances (Legal Basis)
For the Year Ended June 30, 2006**

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED FUND - FEE ACCOUNT	TOTAL (MEMORANDUM ONLY)
REVENUES			
Filing fees		\$82,970	\$82,970
Use of money and property - interest earnings	\$3,777	21,610	25,387
Miscellaneous		18,082	18,082
Total revenues	3,777	122,662	126,439
EXPENDITURES			
Appropriated expenditures:			
Personal services	3,291,995		3,291,995
Travel	100,727		100,727
Operating supplies and services	447,103		447,103
Capital outlay	26,540		26,540
Other charges	181,784		181,784
Non-appropriated expenditures:			
Personal services		44,749	44,749
Travel		7,680	7,680
Operating supplies and services		11,070	11,070
Association dues		2,363	2,363
Judges' Supplemental Compensation Fund		8,425	8,425
Total expenditures	4,048,149	74,287	4,122,436
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	(4,044,372)	48,375	(3,995,997)
OTHER FINANCING SOURCES			
Transfer from Supreme Court	4,159,213		4,159,213
Total other financing sources	4,159,213	NONE	4,159,213
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	114,841	48,375	163,216
FUND BALANCES AT BEGINNING OF YEAR	324,683	1,147,023	1,471,706
FUND BALANCES AT END OF YEAR	\$439,524	\$1,195,398	\$1,634,922

The accompanying notes are an integral part of this statement.

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INTRODUCTION

The Court of Appeal, Second Circuit is a part of the State of Louisiana reporting entity, within the judicial branch of government. The court is provided for in Article V, Sections 8 through 13 of the Louisiana Constitution of 1974 and Sections 311 through 392 of Title 13 of the Louisiana Revised Statutes of 1950. The court's operations are funded through an annual appropriation made by the Louisiana Legislature and from self-generated revenues authorized by Louisiana Revised Statute (R.S.) 13:352. In addition to the fees mandated by R.S. 13:352 relative to appeals, applications for writs, motions filed on unlodged appeals and answers to appeals, the court, in compliance with Act 63 of the 1985 Session of the Louisiana Legislature (R.S. 13:10.3) and in conformity with the Judges' Supplemental Compensation Fund, charges an additional fee of \$19.00. The total amount collected in connection with the Judges' Supplemental Compensation Fund is remitted to the Judicial Administrator's Office of the Supreme Court of Louisiana.

The Court of Appeal, Second Circuit has appellate jurisdiction as authorized under Article V, Section 5 of the Louisiana Constitution, which encompasses the parishes of Bienville, Bossier, Caddo, Caldwell, Claiborne, DeSoto, East Carroll, Franklin, Jackson, Lincoln, Madison, Morehouse, Ouachita, Red River, Richland, Tensas, Union, West Carroll, Winn, and Webster. The Court of Appeal, Second Circuit has supervisory jurisdiction, subject to the general supervisory jurisdiction of the Supreme Court of Louisiana, over all lower courts in all cases in which an appeal would extend to the court of appeal. The Second Circuit is domiciled in Shreveport, Louisiana, and has nine judges and 50 other employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. However, the accompanying financial statements have been prepared on a legal basis, which differs from the principles and standards mentioned previously as explained in the following notes.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The court is considered within the State of Louisiana reporting entity because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the state has control and exercises authority over budget matters; (2) state appropriations provide the largest percentage of total revenues; and (3) the court primarily serves state residents. The accompanying financial statements present information only as to the transactions of the court as further described in notes 1-C and 1-D.

Annually, the State of Louisiana issues basic financial statements which include the activity contained in the accompanying financial statements. These financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

The Court of Appeal, Second Circuit uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position and results of operations of its non-appropriated funds. This differs from the fund accounting of generally accepted accounting principles where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of generally accepted accounting principles.

The funds do not include any noncurrent assets or liabilities. Noncurrent assets, general fixed assets, and long-term liabilities are reflected in the State of Louisiana's general purpose financial statements.

The funds presented in the special purpose financial statements are described as follows:

General Appropriation Fund

The General Appropriation Fund provides for the general administrative expenditures of the court.

Non-Appropriated Fund - Fee Account

The Fee Account is used to account for filing fees and other revenues received by the court as provided by R.S. 13:352. Expenditures incurred in excess of the amount appropriated by the legislature (General Appropriation Fund) are funded from this account.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the court. This differs from generally accepted accounting principles in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Judicial Budgetary Control Board. These legal requirements differ from generally accepted accounting principles as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.
2. Expenditures are recognized to the extent that appropriation authority has been extended to the court and not necessarily when the fund liability has been incurred.

Under the foregoing legal provisions, the court uses the following practices in recognizing revenues and expenditures:

Revenues

Self-generated revenues are recognized when earned.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Furthermore, any expenditure of a long-term nature for which funds have not been appropriated during the current year is not recognized in the accompanying financial statements.

Other Financing Sources (Uses)

The transfer from the Supreme Court represents the appropriation from the state General Fund. The transfer is recognized in the amount appropriated, to the extent withdrawn from the state treasury. Operating transfers are recognized when they become measurable and available.

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit. Under state law, the Court of Appeal, Second Circuit may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the court may invest in time certificates of deposit of state banks organized under the laws of the State of Louisiana, national banks having their principal offices in Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state-chartered credit unions.

F. LONG-TERM OBLIGATIONS

The court is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the court arising from lease commitments, judgments, compensated absences or any other source are not recognized in the accompanying special purpose financial statements.

G. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve fund balances, is employed by the court. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities in the year encumbered.

H. BUDGET PRACTICES

The general appropriation made for the operations of the court is an annual lapsing appropriation. Amounts not expended or encumbered should be returned to the state General Fund on or before September 1, 2006. The general appropriation for fiscal year 2006 was expended or encumbered.

The accompanying financial statements do not present a budget comparison because the appropriated fund is budgeted in lump sum and the non-appropriated fund is not subject to budgetary control. The budget authorized by Act 56 of the 2005 Regular Session of the Legislature for the appropriated fund was \$4,276,826, which was subsequently reduced by \$117,613 by the Judiciary Budgetary Control Board, establishing a total budget of \$4,159,213. The appropriation act also appropriates to the court any interest that it earns. Budget revisions are granted by the Judicial Budgetary Control Board as provided by the act.

I. JUDGES' SALARIES

The salaries of the judges are paid directly by the Supreme Court of Louisiana with warrants drawn on the state treasury and are not included in the expenditures of the accompanying financial statements.

J. LEAVE BENEFITS

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus

unused sick leave are used to compute retirement benefits. Act 343 of 1993 allows members of the Louisiana State Employees Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement.

The cost of current leave privileges, computed in accordance with GASB Codification Section C60, is recognized as current-year expenditure in the General Appropriation Fund when leave is actually taken. The liability for unused annual leave payable at June 30, 2006, computed in accordance with GASB Codification Section C60.105, is estimated to be \$229,673. The leave payable is not recorded in the accompanying financial statements.

K. TOTAL COLUMNS ON STATEMENTS

The total columns on the statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations. Neither is such data comparable to a consolidation.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents (book balances) are composed of the following:

Petty cash	\$100
Cash in demand accounts	1,154,595
Certificates of deposit	<u>500,000</u>
Total	<u><u>\$1,654,695</u></u>

Cash and cash equivalents are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At June 30, 2006, the court has \$1,714,009 in deposits (collected bank balances), which is secured from risk by federal deposit insurance plus pledged securities.

3. PENSION PLANS

Substantially all employees of the court are members of the Louisiana Clerks Retirement and Relief Fund (LCRRF), the Louisiana State Employees Retirement System (LASERS), or the Social Security System (SSS). The LCRRF is a statewide cost-sharing, multiple-employer plan and LASERS is a statewide cost-sharing single employer plan. Both plans are administered by separate boards of trustees and provide retirement, disability, and survivors' benefits to plan

members and beneficiaries. Benefits granted by LASERS are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, permanent employees are eligible to participate in the retirement systems, with employee benefits vesting after 10 years of service. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Louisiana Clerks Retirement and Relief Fund, 11745 Bricksome Avenue, Suite B1, Baton Rouge, Louisiana 70816, or by calling (225) 293-1162 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (225) 922-0600.

The contribution requirements of plan members and the court are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.25% (LCRRF) and 7.5% (LASERS) of covered salaries. The state is required to contribute 15.75% of covered salaries to LCRRF and 19.1% of covered salaries to LASERS. The court's employer contribution is funded by the State of Louisiana through the annual appropriation to the court. The court's employer contribution to LCRRF for the years ended June 30, 2006, 2005, and 2004, were \$56,129, \$50,580, and \$38,572, respectively, and to LASERS for the years ended June 30, 2006, 2005, and 2004, were \$374,386, \$340,688, and \$281,288, respectively, equal to the required contributions for each year for each retirement system.

4. POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The court provides certain continuing health care, life insurance, and dental benefits for its retired employees. Substantially all of the court's employees become eligible for these benefits if they reach normal retirement age while working for the court. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and the court. Dental premiums are paid by the court. The court recognized the cost of providing these benefits (court's portion of premiums) as expenditure when paid during the year. The court's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 2006, the cost of benefits for 18 retirees totaled \$77,657.

5. JUDGMENTS, CLAIMS, AND SIMILAR CONTINGENCIES

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

6. RESERVED FOR CONTINUING OPERATIONS

As shown on Statement A, the Non-Appropriated Fund - Fee Account has a reserve for continuing operations totaling \$1,195,398. These funds may be retained and used to defray the expenditures of the court as prescribed by R.S. 13:352.

7. LEASE OBLIGATIONS

Lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period. Total lease expenditures for fiscal year 2005-2006 amounted to \$70,347.

The annual rental payments for noncancelable operating leases during the next three fiscal years are presented as follows:

<u>Nature of Operating Lease</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Photocopying equipment	\$14,612	\$11,987	\$3,604
Office space	<u>249,692</u>	<u>72,024</u>	<u>7,812</u>
Total	<u>\$264,304</u>	<u>\$84,011</u>	<u>\$11,416</u>

The court has no capital lease agreements for the fiscal year ended June 30, 2006.

8. DEFERRED COMPENSATION PLAN

Certain employees of the court participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

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OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control over financial reporting and on compliance with laws, regulations, and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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November 16, 2006

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Shreveport, Louisiana

We have audited the special purpose financial statements of the Court of Appeal, Second Circuit as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2006. Our report was modified to indicate that the financial statements present fairly the financial position and changes in financial position of the court on a legal basis rather than in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Court of Appeal, Second Circuit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the special purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

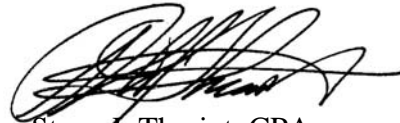
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Court of Appeal, Second Circuit's special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the court and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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[2CCA06]